A COMPREHENSIVE FEDERAL AND STATE UNIVERSAL SERVICE PLAN
(continued)

The following additional criteria are required for competitively neutral and non-discriminatory fund distributions:

A. Have similar regulatory obligations (i.e., meet quality of service, rate averaging, costing, etc., requirements).

B. Receive support if the incumbent is receiving explicit support for an area. If the incumbent is not receiving explicit support, then no support barrier to entry exists. Consequently, no competitor in an area should receive support and market forces should be allowed to operate.

C. Receive support in an area for the portion of its network for which it provides its own facilities. Explicit support for resold services or facilities should not be provided to the reseller, but to the provider of the underlying facilities to the customer.

A COMPREHENSIVE FEDERAL AND STATE UNIVERSAL SERVICE PLAN

(continued)

III. Universal Service Area.

A. Appropriate area is wire center or exchange (study area for rural telephone companies).
   - Consistent with the current basic local service rate area.

B. Zones as proposed by AT&T are inappropriate.
   - Create huge rural Universal Service area --- for Missouri: 19,948 square miles.
   - Would overlap numerous incumbent LEC Universal Service local rate exchange areas.

C. Census Block Groups are inappropriate.
   - Would overlap differing incumbent LEC Universal Service local rate exchange areas.
   - Difficult to administer --- 5,059 Census Block Groups in Missouri versus 213 exchange areas.

A COMPREHENSIVE FEDERAL AND STATE UNIVERSAL SERVICE PLAN

(continued)

IV. SWBT's Proposed Federal Universal Service Plan --- Joint Board and FCC.

A. Establish overall basic residential universal service affordability benchmark rate level --- one percent of each state's median income. For Florida, this is $24.41 per line per month.[1]

B. Establish the federal end user common line charge as the federal portion of the overall benchmark --- currently $3.50 for residential customers.

C. Restructure existing federal support [Carrier Common Line (CCL), Long Term Support (LTS)]:

1. Actual incumbent LEC interstate local exchange loop costs by exchange or wire center which are above the EUCL would be assigned to a federal fund. If actual costs by wire center are not available, disaggregate actual study area costs to exchange using proxy costs.
2. If the EUCL is increased, the federal benchmark would increase and the federal fund size would be decreased. If the EUCL is raised to the level that recovers the total LTS and CCL for the LEC, then all federal CCL and LTS support for that LEC would be eliminated.

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[1]Based on 1994 Median Incomes for Non-Rural Telephone Companies, U.S. Bureau of the Census, Current Population Reports.

A COMPREHENSIVE FEDERAL AND STATE UNIVERSAL SERVICE PLAN

(continued)

3. On a revenue neutral basis, new LEC federal support revenues plus any EUCL revenue increases would be used to reduce their federal carrier common line and long term support requirements.

D. Increase Lifeline support to match increases in EUCL, if any.

E. Receipt of federal support by qualified new entrants. The following options are available:
   1. Require the new entrant to cost justify its support.
   2. New entrants would receive the same level of support for facilities it constructs to customers, as received by incumbent. This would eliminate barrier-to-entry for new facilities-based local service universal service provider and continue to provide support to the incumbent LEC for its carrier of last resort responsibilities.
   3. Provide portable support at the level per line in the area received by the incumbent to the new universal service entrant where it serves a customer with its own facilities. Incumbent loses the support for the customer and for its carrier of last resort responsibilities.

A Comprehensive Federal and State Universal Service Plan

(continued)

F. Retain the existing USF and DEM weighting federal support programs with minor modifications as may be made by the Joint Board.
   - For non-rural LECs, distribute the existing USF support to universal service areas based on an actual cost analysis by wire center or if actual costs are unavailable by a proxy.

G. All interstate telecommunications providers should pay into the fund based a surcharge on their retail telecommunications revenues. If EUCLs are increased for incumbents, their support funding requirement should be decreased by the amount of the EUCL increase in order to avoid recovering support twice (once from the EUCL increases and again from the surcharge) from their local customers.

A COMPREHENSIVE FEDERAL AND STATE UNIVERSAL SERVICE PLAN

(continued)

V. Intrastate Universal Service.

If the current jurisdictional responsibility for revenues and costs are maintained, then the state jurisdictions have numerous options for dealing with local exchange support included in intraLATA toll and access rates.

The plan can operate structurally very much like the Federal Plan:

A. The state benchmark rate (the portion of the overall benchmark rate established by the Joint Board) is the local exchange rate by wire center or exchange.

B. Restructure access CCL and intraLATA toll local exchange support as follows:

1. Actual intrastate local exchange costs above the state rate by wire center or exchange are assigned to a state fund. If actual costs are not available, total intrastate local exchange costs may be distributed to areas based on a proxy.

A COMPREHENSIVE FEDERAL AND STATE UNIVERSAL SERVICE PLAN

(continued)

2. If the benchmark intrastate local exchange rate is increased, the fund size will be reduced. If the local exchange rate is increased to a level which fully offsets the CCL and toll support for local, then no state fund will be necessary for these elements.[2] Differences in rate changes for small and large LECs could be tailored to state needs.

3. On a revenue neutral basis, fund revenues plus local rate increases would be used to reduce access and intraLATA toll rates.

C. Intrastate toll rates should be reduced by the amount of intrastate access reductions.

D. State Lifeline should be revised to deal with local rate increases, if any.

E. Qualified new entrants should receive support in a manner similar to that described under the Federal Plan.

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[2]A state fund may still be required to deal with other intrastate support (i.e., costs of toll rate averaging involving the transport interconnection charge, vertical services, etc.).

A COMPREHENSIVE FEDERAL AND STATE UNIVERSAL SERVICE PLAN

(continued)

F. All intrastate telecommunications providers should pay into the fund based on a surcharge on their retail intrastate telecommunications revenues. If local rates are increased for incumbents, their support funding requirement should be decreased by the amount of the local increase in order to avoid recovering support twice (once from the local increase and again from the surcharge) from their local customers.

Although the plan outlined above follows the structure of the proposed federal plan, many other options to design state funds are available to State Commissioners.

5

COMPETITIVE BIDDING IS INAPPROPRIATE AND UNNECESSARY

ENCOURAGES GAME PLAYING TO THE DETRIMENT OF UNIVERSAL SERVICE.

- New entrant could select to serve a few cost customers in a high cost area with facilities and provide service to others with resale.
- New entrant could bid down support based on their lower facility costs.
- Support for incumbents who serve the higher cost customers would also be inappropriately reduced.

DOES NOT COMPLY WITH THE INTENT OF FEDERAL LEGISLATION AND IS HARMFUL TO THE STATE.

- Discourages competition.
- Disincents economic development.
- Discourages comparable urban and rural services and rates.
- Discourages bringing advanced services to rural areas.

WOULD CREATE INSTABILITY IN RURAL AND HIGH COST AREAS.

- Continual changes in carrier of last resort obligations.
    - Who is customer to call?
- Insufficient support to maintain current obligations.

CREATES SUBSTANTIAL AND ADDITIONAL ADMINISTRATIVE BURDENS FOR COMPANIES AND REGULATORS.